SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
COMMENT ON
POTENTIAL DISTRIBUTIONAL EFFECTS OF
ALLOWANCE ALLOCATION ALTERNATIVES

September 28, 2009

To the Economic and Allocation Advisory Committee:

Larry Goulder, Chair, Stanford University, Stanford, CA
Justin Adams, Forward Observer, Sacramento, CA
Vicki Arroyo, Georgetown State and Federal Resource Center, Washington, DC
Matthew Barger, Hellman and Friedman LLC, San Francisco, CA
James K. Boyce, University of Massachusetts, Amherst, MA
Dallas Burtraw, Resources for the Future, Washington, DC
James Bushnell, University of California Energy Institute, Berkeley, CA
Robert Fischer, Gap, Inc., San Francisco, CA
Richard Frank, California Center for Environmental Law & Policy, Sacramento, CA
Dan Kammen, University of California, Berkeley, CA
Christopher R. Knittel, University of California, Davis, CA
Joe Krueger, Bipartisan Policy Center, National Commission on Energy Policy, Washington, DC
Stephen Levy, Center for the Continuing Study of the California Economy, Palo Alto, CA
Joe Nation, Stanford University, Stanford, CA
Nancy E. Ryan, California Public Utilities Commission, San Francisco, CA
Nancy Sidhu, Los Angeles County Economic Development Corporation, Los Angeles, CA
James L. Sweeney, Stanford University, Stanford, CA

The Southern California Public Power Authority ("SCPPA") applauds your willingness to serve on the Economic and Allocation Advisory Committee ("EAAC"). You will be advising the California Air Resources Board ("Board") on the most complex and controversial issue that will confront the Board as it implements Assembly Bill ("AB") 32, the allocation of cap-and-trade allowances and the revenues that flow from the sale of allowances.

In his May 22, 2009 letter to you, Governor Schwarzenegger observed that California's cap-and-trade program should "achieve our greenhouse gas reduction goals without impairing

robust economic growth…." The Governor correctly observed: "The Committee's input will be critical to the design of such a program, so it is no exaggeration to say that the eyes of the world will be upon your work." SCPPA is fully committed to providing whatever assistance it may be able to provide to you as you discharge the burden that you have graciously accepted.

SCPPA includes twelve members: Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, the Los Angeles Department of Water and Power, the Imperial Irrigation District, Pasadena, Riverside and Vernon, California.[1] SCPPA members serve over two million residential and business customers in Southern California and a population of approximately 4.6 million people.

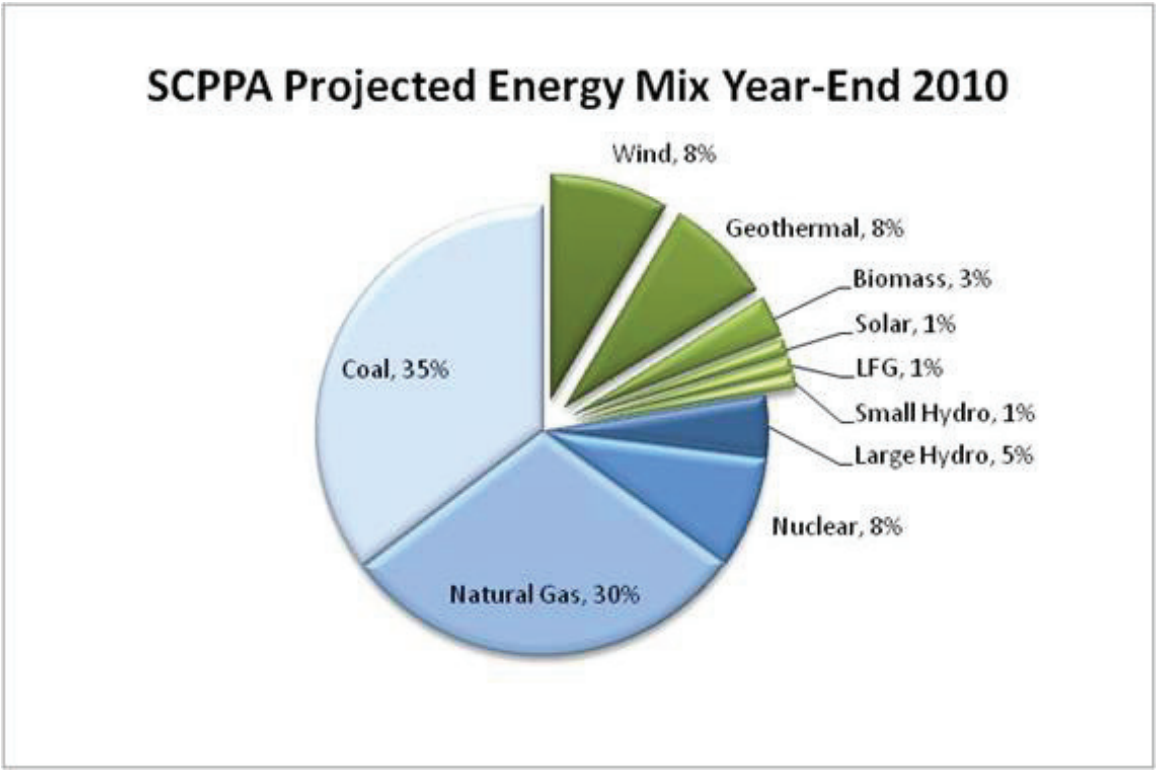
Due to historical and geographic circumstances, the SCPPA members have a generation resource mix that includes a higher percentage of coal-fired generation than other California electric utilities. As a result, the SCPPA members are going to have to do more than others to reduce their greenhouse gas ("GHG") emissions. SCPPA members gave embraced the emissions reduction challenge. For example, the SCPPA members have voluntarily adopted rigorous renewable portfolio standards that mandate individual members to obtain as high as 40 percent of their electricity from renewable resources by 2020.

The purpose of this comment is to explain the historical circumstances that led the SCPPA members to have a relatively high percentage coal in their resource mix, the efforts that the SCPPA members are voluntarily undertaking to reduce their GHG emissions dramatically, and the concern they have about allowance allocation methodologies that would have the unintended negative consequence of depriving them of resources that they need to attain concrete GHG emission reductions.

[1] This comment is sponsored by Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, the Imperial Irrigation District, Pasadena, and Riverside.

I. WHY IS THERE SO MUCH COAL IN THE SCPPA MEMBERS' RESOURCE MIX?

As shown in the following chart, as of the end of 2010, coal-fired generation will still represent 35 percent of the energy delivered to customers by SCPPA members:



Coal-fired generation produces a relatively high percentage of the SCPPA members' electricity because of circumstances in the late 1970s when the SCPPA members needed additional generation capacity to serve their growing communities. There were four generation options, but only one was available.

A. Option 1: Hydroelectric Generation.

Some SCPPA members have benefited from hydroelectric supplies since the 1930s. The best known hydroelectric generation facility that provides electricity to SCPPA members is the Hoover Project at Hoover Dam in Nevada. However, by the early 1970s, new hydroelectric

generation was not a viable option for obtaining substantial supplies of additional electricity. The good development sites were already being utilized, and environmental concerns precluded development at other sites that might be available to the SCPPA members.

B. Option 2: Nuclear.

In the early 1970s, nuclear power was still a viable option for obtaining new supplies of electricity, and several of the SCPPA members took advantage of that option. The Los Angeles Department of Water and Power ("LADWP") and other SCPPA members purchased ownership interests in the Palo Verde Nuclear Generation Station on Arizona. Of the total of 3,700 megawatts of generating capacity at the Palo Verde Nuclear Generation Station, SCPPA owns 5.9 percent on behalf of its members, and the LADWP owns an additional 5.7 percent.

However, the development of new nuclear projects in California was precluded in 1974 when California enacted the Warren-Alquist State Energy Resources Conservation and Development Act ("Warren-Alquist Act"). Section 25524.2 placed a moratorium on the certification of new plants by the newly created California Energy Commission ("CEC") until the CEC "finds that there has been developed and that the United States through its authorization authority has approved and there exists a demonstrated technology or means with a disposal of high-level nuclear waste." This provision has precluded development of new nuclear power plants in California. After passage of the Warren-Alquist Act, new nuclear generation in California was not a viable option for the SCPPA members.

C. Option 3: Natural Gas.

Currently, natural gas is an abundant and low-cost resource, but that was not the case in the 1970s. The 1970s were marked by chronic curtailment of natural gas supplies in the interstate gas market. Severe shortages occurred during the winter of 1977. As a result, the Powerplant and Industrial Fuel Use Act of 1978 ("FUA") prohibited new power plants from

using natural gas as well as oil as a primary source of fuel without getting an exemption from the newly-created Economic Regulatory Administration ('ERA"). *See* Report of the Committee on Coal Energy Conversion, Energy Law Journal, vol. 1, no. 1, pp. 115-118 (1980). National policy favored the use of an abundant domestic fuel--coal--in new electric power plants rather than natural gas or oil. The prohibition on the use of natural gas as a primary energy source of new power plants remained in effect until it was finally repealed by the Natural Gas Realization Act of 1987. Thus, new natural gas-fired generation was not an option for SCPPA members in the late 1970s.

D. Option 4: Coal.

By the late 1970s, coal was the only new generation resource that was available to the SCPPA members. Hydroelectric resources were precluded by geographic circumstances and environmental concerns. Nuclear resources were precluded by the Warren-Alquist Act. Natural gas resources were prohibited by the FUA. But national policy strongly favored and supported the development of coal-fired resources.

In 1978, the newly created Intermountain Power Agency offered sales power contracts to six members of SCPPA for participation in the Intermountain Power Project ("IPP"), a coal-fired generation project in Utah. Insofar as other options were precluded, the SCPPA members agreed to participate in IPP. As a result, SCPPA members have contractual rights to 1,350 megawatts of capacity in IPP. Through SCPPA, some SCPPA members entered into arrangements for lesser amounts of capacity in other coal-fired facilities in the western states.

II. SCPPA'S DEDICATION TO AGGRESSIVE GHG EMISSION REDUCTION MEASURES.

Today, zero-emission or low-emission electricity generation technologies and energy efficiency technologies that were unknown in the 1970s are available. Abundant supplies of

natural gas, a fuel that has approximately half the emissions than coal, are available at low prices. And the SCPPA communities, along with the nation and the world are aware of climate change and the need to reduce GHG emissions. As a result, SCPPA members are aggressively pursuing all available measures to reconfigure their electricity generation resource mix so as to reduce emissions while simultaneously reducing the demand for electricity by promoting energy efficiency and utilizing smart grid technology.

The SCPPA members are already integrating into their resource portfolios renewable energy projects that have a combined capacity of over 1,000 megawatts. Another 3,000 megawatts of projects are presently under review and in various stages of negotiations for deliveries beginning in 2010.

Since 1998, SCPPA members have spent more than $300 million on energy efficiency and demand reduction management projects. In 2007, SCPPA members committed themselves to 10-year energy efficiency targets which will result in an average reduction for demand by one percent per year.

The SCPPA members have committed themselves to aggressive measures to reduce their GHG footprint with full knowledge that the cost will be high. SCPPA members anticipate that bills to customers will escalate by approximately **30 percent** due to the cost of the measures that the SCPPA members are undertaking. Insofar as SCPPA are publicly owned utilities, the ratepayers of the SCPPA members are also the shareholders. Consequently, 100 percent of increased cost will be borne by households and businesses in the SCPPA communities.

III. THE NEED TO AVOID IMPOSING A DOUBLE BURDEN ON CHALLENGED COMMUNITIES.

Given the heavy burden that SCPPA communities will have to bear to reduce the GHG footprint of their electricity usage, it would be unfair to impose upon them an *additional* burden

of buying allowances with the value of the allowances being exported from their communities to be used by others. Although the SCPPA members are dedicated to sharply reducing the GHG emission footprint of electricity usage in their communities, there will still be some emissions associated with electricity usage. The SCPPA members project that if they were required to buy allowances to cover 100 percent of their emissions and none of the revenues derived from selling allowances were returned to the SCPPA members, residential and business rates would increase by an **additional 30 percent** on top of the 30 percent rate increase that will be caused by the concrete emission reduction measures that the SCPPA members are undertaking.

Extracting allowance value from the SCPPA communities and giving it to others to be used elsewhere would be unjustifiably punitive. The resource decisions that were made by the SCPPA members in the 1970s were rational and consistent with national policy at the time the decisions were made. The SCPPA communities should not be retroactively punished for those decisions.

Governor Schwarzenegger was correct when he said in his May 22, 2009 letter to you that California should design "a cap-and-trade program that will achieve our greenhouse gas reduction goals without impairing robust economic growth…." The cap-and-trade program should not impair the economies of some California communities by extracting allowance value from those communities while simultaneously stimulating the economies of other communities by transferring allowance value to them.

The SCPPA communities will need the full resources of the communities to meet the emission reduction goals that they have embraced. The California cap-and-trade program should be designed to avoid benefiting some communities while harming others. If the California cap-and-trade program is, as appropriately expected by Governor Schwarzenegger, "to provide a

model for the rest of the country," the California cap-and-trade program should be designed to treat communities even-handedly.

IV. CONCLUSION.

SCPPA appreciates this opportunity to provide some introductory comments to you. SCPPA is committed to providing whatever assistance that may be useful to you as you endeavor during the next several months to design the cap-and-trade allowance allocation and revenue allocation methodology that will treat all Californians equitably and simultaneously provide a model for the rest of the country.

Respectfully submitted,

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